

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 AID-05 CIAE-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /100 W

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R 081806Z JUL 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3485

TREASURY DEPT WASHDC

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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AMEMBASSY TOKYO

AMCONSUL BELFAST

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DEPARTMENT PASS FRB AND LABOR

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A

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TAGS: EFIN, ECON, UK

SUBJECT: THE NEW INDUSTRIAL STRATEGY; TRANSLATING WORDS
INTO ACTION

REF: LONDON 17108 OF NOVEMBER 7, 1975

SUMMARY: THE CONSENSUS AMONG GOVERNMENT, ORGANIZED LABOR AND INDUSTRY WHICH MADE POSSIBLE THE LAUNCHING OF THE NEW INDUSTRIAL STRATEGY AT CHEQUERS LAST NOVEMBER (REFTEL) HAS BEEN ENLARGED AND STRENGTHENED. THIS WAS APPARENT DURING THE JULY 8 COUNCIL MEETING OF THE NATIONAL ECONOMIC DEVELOPMENT ORGANIZATION (NEDO) CHAIRED BY PRIME MINISTER CALLAGHAN. THE MEETING RECEIVED THE REPORTS AND SPECIFIC RECOMMENDATIONS OF 39 WORKING PARTIES, EACH COVERING A PARTICULAR INDUSTRIAL SECTOR. THESE WILL SERVE AS POINTS OF DEPARTURE BOTH FOR FOLLOW-UP TALKS BETWEEN LABOR AND MANAGEMENT AT THE PLANT LEVEL AND FOR GOVERNMENT, AS IT CONSIDERS PROGRAMS TO PROMOTE INDUSTRY FOR INCLUSION IN NEXT YEAR'S BUDGET. THERE WERE UNUSUALLY WARM PUBLIC EXPRESSIONS OF SUPPORT FOR THE EXERCISE BOTH FROM REPRESENTATIVES OF THE TRADES UNION CONGRESS (TUC) AND THE CONFEDERATION OF BRITISH INDUSTRY (CBI). THE PRIME MINISTER TOLD THE PRESS THAT ALL SIDES WERE UNITED IN THEIR DESIRE TO CARRY THE STRATEGY FORWARD TO ENSURE THAT INDUSTRY WAS ABLE TO ACHIEVE REAL AND SUBSTANTIAL GROWTH IN THE CURRENT RECOVERY. WHILE THE DEGREE OF CONSENSUS AND THE OUTLOOK FOR COOPERATION APPEAR STRONGER THAN AT ANY TIME IN THE PAST DECADE, THE PROBLEMS TO BE RESOLVED ARE DEEP SEATED. AFTER 8 MONTHS, THE MAIN ACHIEVEMENT REMAINS RHETORICAL RATHER THAN SUBSTANTIVE. THE COMING YEAR WILL PROVIDE THE FIRST EVIDENCE, IF THERE IS TO BE ANY, OF BRITAIN'S ABILITY TO TRANSLATE GOOD INTENTIONS INTO CONCRETE RESULTS. END SUMMARY

1. ALMOST UNNOTICED AMID THE WELTER SURROUNDING THE SECOND STAGE OF INCOMES POLICY. THE RUN ON STERLING AND VARIOUS PARLIAMENTARY ROWS OVER CONTROVERSIAL LEGISLATION, THE MACHINERY SET UP LAST NOVEMBER AT THE CHEQUERS MEETING OF THE NEDO HAS GENERATED A DETAILED PICTURE OF THE PROBLEMS FACING SOME 39 SECTORS OF BRITISH INDUSTRY. WHILE SOME SECTORAL COMMITTEES WERE ALREADY IN EXISTENCE WHEN THE WORK BEGAN LAST JANUARY, MANY HAD TO BE CREATED

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VIRTUALLY OVERNIGHT. THEY WERE COMPOSED OF REPRESENTATIVES OF BUSINESS AND LABOR WITH SECRETARIAT FACILITIES PROVIDED BY NEDO. CHAIRED IN SOME CASES BY A TRADE UNION MEMBER AND IN OTHERS BY AN INDUSTRY MEMBER, THE WORKING PARTIES WERE ABLE TO ORGANIZE AND PROCEED WITH THEIR WORK WITHOUT THE RANCOR THAT HAD CHARACTERIZED LABOR-MANAGEMENT RELATIONS UNTIL QUITE RECENTLY. THIS SPIRIT OF COOPERATION IS PROBABLY THE LEAST TANGIBLE BUT MOST IM-

PORTANT ACCOMPLISHMENT OF THE ENTIRE EXERCISE TO
DATE.

2. THE 39 REPORTS, CONTAINING ABOUT 350 RECOMMENDATIONS,
ARE NOT EASILY SUMMARIZED, BUT COMMON THREADS DO RECUR.
MOST OF THE REPORTS DEAL WITH SPECIFIC MEASURES NEEDED
FOR THE IMPROVEMENT OF THE QUALITY AND THE QUANTITY OF
OUTPUT. THEY STRESS THE NEED FOR INDUSTRY TO MAKE FULLER
USE OF EXISTING GOVERNMENT INVESTMENT INCENTIVES. IM-
PROVED COMMUNICATION BETWEEN COMPONENT SUPPLIERS AND MANU-
FACTURERS IS SUGGESTED AS A MEANS OF REDUCING BOTTLE-
NECKS IN PRODUCTION. ADEQUATE FINANCE BOTH FOR EXPANSION
OF PLANT AND EQUIPMENT AND WORKING CAPITAL HAS BEEN CON-
STRAINED BY LOW LEVELS OF PROFIT.

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R 081806Z JUL 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3486

TREASURY DEPT WASHDC

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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3. IN A PAPER PREPARED BY HMG TO ACCOMPANY THE SECTORAL
REPORTS, THERE IS A RESTATEMENT OF THE GOVERNMENT'S IN-
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TENTION TO GIVE HIGHER PRIORITY TO THE NEEDS OF INDUSTRY.
TO THAT END "FULL ACCOUNT IS TO BE TAKEN OF THE INDUSTRI-
AL IMPLICATIONS OF FISCAL AND MONETARY MEASURES AND OF
PUBLIC EXPENDITURE." THE GOVERNMENT ADMITS THAT THERE IS
A BASIC NEED FOR:

BETTER COORDINATION BEEEN MACRO AND MICRO-ECONOMIC
POLICY.

MORE CONSISTENT GOVERNMENT MICRO-ECONOMIC POLICIES
NOTABLY IN THE ENERGY FIELD TO MAKE POSSIBLE BETTER FOR-
WARD PLANNING.

EFFECTIVE GOVERNMENT POLICY IN NON-ECONOMIC AREAS
SUCH AS EDUCATION AND THE ENVIRONMENT.

A RECOGNITION THAT THE BASIC REQUIREMENT FOR HIGHER
INVESTMENT IS PROFITABILITY.

THE PAPER OBSERVES THAT MOST OF THE SHORT-RUN PROBLEMS
IDENTIFIED IN THE REPORTS REFLECT SUCH LONG-TERM WEAK-
NESSES AS:

LOW PRODUCTIVITY

POOR DELIVERY PERFORMANCE

LACK OF FLEXIBILITY IN THE USE OF RESOURCES

AS A RESULT, THE MAIN THRUST OF THE STRATEGY SHOULD BE TO:

IMPROVE THE LEVELS OF OUTPUT OF EXISTING INDUSTRIAL
CAPACITY.

INCREASE CAPACITY THROUGH ADDITIONAL INVESTMENT.

IMPROVE THE CURRENT USE OF MANPOWER AND IMPROVE JOB
TRAINING PROGRAMS.

INCREASE THE ATTRACTIVENESS OF CAREERS IN INDUSTRY
BOTH FOR THE UNIVERSITY GRADUATES AS WELL AS THE 16-YEAR-
OLD SCHOOL LEAVER.

IMPROVE THE COMPETITIVENESS OF INDUSTRY SO AS TO
INCREASE EXPORTS AND RESIST THE PENETRATION OF THE DOMES-
TIC MARKET BY IMPORTS.

THE MECHANICS OF APPLYING THE RECOMMENDATIONS OF THE WORK-
ING PARTIES ARE THE KEY TO THE SUCCESS OF THE STRATEGY.
WHILE THE GOVERNMENT WILL FOLLOW-UP ON THOSE RECOMMENDA-
TIONS SPECIFICALLY ADDRESSED TO IT. THERE WILL BE GREATER
DIFFICULTY WHEN THE TUC AND THE CBI TRY TO BRING SPECIFIC
WORKING PARTY RECOMMENDATIONS DOWN TO THE LEVEL OF INDIV-
IDUAL FIRMS FOR FURTHER ACTION.

4. NEVERTHELESS, THE PAP CONCLUDES THAT THIS FIRST
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STAGE OF THE STRATEGY HAS SUCCEEDED BEYOND EXPECTATIONS
AND JUSTIFIES THE CONTINUATION OF THE EXERCISE. THE
NEXT STAGE WILL BUILD ON THAT SUCCESS AND FOCUS ON QUES-
TIONS OF INCREASED COMPETITIVENESS, THE SCOPE FOR WIDEN-
ING THE UK SHARE BOTH OF THE DOMESTIC AND WORLD MARKETS,
AND THE VOLUME AND LOCATION OF NEW INVESTMENT. THE GOV-
ERNMENT INTENDS TO PUT FORWARD MORE DETAILED PROPOSALS
AT THE NEDO COUNCIL MEETING NEXT MONTH.

5. COMMENT: IF THE CHEQUERS MEETING LAST NOVEMBER WAS
AN EXERCISE WHICH BROUGHT TOGETHER A DISPARATE GROUP OF
TRADITIONAL ANTAGONISTS IN THE FACE OF A COMMON ADVERSITY,
THE CURRENT MEETING PRODUCED A DEGREE OF CAMARADERIE
UNPRECEDENTED SINCE NEDO WAS ESTABLISHED IN 1961. THE
WARMTH OF THE OCCASION WAS REFLECTED IN REMARKS MADE BY
REPRESENTATIVES OF THE CBI AND THE TUC. THE CBI, IN THE
PERSON OF ITS PRESIDENT. LORD WATKINSON, PLEDGED
ITS "FULL SUPPORT IN MAKING THIS INDUSTRIAL
STRATEGY WORK....IT IS NOW UP TO PRIVATE ENTERPRISE AND

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FM AMEMBASSY LONDON

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TREASURY DEPT WASHDC

INFO AMEMBASSY BERN

AMEMBASSY BONN

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TO THE PUBLIC SECTOR, TOO, TO PLAY THEIR PART, AND WE
CERTAINLY WILL." LORD ALLEN, SPEAKING FOR THE TUC,
STRESSED THAT "THIS EXERCISE WILL BE ENTIRELY WORTHLESS
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UNLESS THE INDUSTRIAL STRATEGY CAN BE TRANSLATED TO THE
INDIVIDUAL FIRM." IN LINE WITH THIS EMPHASIS ON PRACTICAL
RESULTS, THE TUC DID NOT RAISE ITS OB-
JECTIONS TO INCLUSION OF REFERENCES TO THE NEED TO IMPROVE
PRODUCTIVITY BOTH IN THE WORKING PARTY REPORTS AND THE
GOVERNMENT SUMMARY PAPER.

6. THE SWEETNESS AND LIGHT SO EVIDENT AT THE NEDO MEET-
ING IS A GENUINE REFLECTION OF THE SPIRIT OF COOPERATION
THAT IS EMERGING BETWEEN BUSINESS, LABOR AND GOVERNMENT.
HOWEVER, THIS SPIRIT WILL BE SORELY TESTED AS ALL SIDES
BEGIN TO GRAPPLE WITH THE ACTUAL IMPLEMENTATION OF THE

WORKING PARTY RECOMMENDATIONS. THE DISLOCATIONS THAT ARE IMPLIED AND INHERENT IN MAKING CHANGES IN THE ECONOMIC STRUCTURE OF INDUSTRY WILL TEST THE RESOLVE AND STRAIN THE INGENUITY AND PATIENCE OF THE MOST DEDICATED SUPPORTER OF THE NEW INDUSTRIAL STRATEGY. THE OUTCOME OF THE PROCESS IS VERY MUCH IN THE BALANCE BUT IT IS FAIR TO SAY THAT THE GOVERNMENT, THE TUC AND THE CBI HAVE SO FAR DONE EVERYTHING IN THEIR POWER TO WEIGHT THE DICE IN FAVOR OF THE SUCCESS OF THE STRATEGY. IT IS UNLIKELY THAT ANY PREVIOUS POSTWAR UK INDUSTRIAL POLICY HAS STARTED FROM SUCH A FAVORABLE POSITION. THE NEXT BENCHMARK ON THE PROGRESS OF THE STRATEGY WILL COME WITH THE ANNOUNCEMENT OF CUTS OR REALLOCATION OF RESOURCES IN PUBLIC EXPENDITURE. IF EXPENDITURE ON INDUSTRY IS INCREASED AT THE EXPENSE OF DEEPER CUTS IN OTHER AREAS, HMG'S COMMITMENT WILL HAVE BEEN BACKED WITH ACTION AS WELL AS WORDS.

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Message Attributes

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Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
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To: STATE TRSY
Type: TE
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